

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-94-3
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**ORDER GRANTING ONE-YEAR EXTENSION OF INCENTIVE
GAS SUPPLY PROCUREMENT PLAN**

(Issued October 28, 2002)

On July 17, 2002, MidAmerican Energy Company (MidAmerican) filed a request for continuation of the Incentive Gas Supply Procurement Plan (IGSPP) with the Utilities Board (Board). MidAmerican requested that the Board grant an extension of the IGSPP for a two-year period beyond the current expiration date of October 31, 2002, to October 31, 2004. The filing was identified as Docket No. RPU-94-3. MidAmerican states that Consumer Advocate Division of the Department of Justice (Consumer Advocate) supports the request for an extension. If the extension is approved, MidAmerican states that it will administer the IGSPP pursuant to the terms and conditions detailed below:

- (1) Continue the IGSPP for two-years until October 31, 2004;
- (2) Make the reservation charges component of the reference price for the entire period of the two-year extension utilize the actual costs for and terms of interstate pipeline contracts in effect on October 31, 2001;
- (3) The amount of the award that MidAmerican is eligible to recover and correspondingly the penalty MidAmerican shall be required to absorb shall be capped at a maximum level of \$2.25 million for the first year of the IGSPP extension and \$1.75 million for the second year of the IGSPP extension. The maximum amount of award or penalty may be reached during the first six-month period each year of the IGSPP extension and if this occurs, no additional amount above the maximum

amount shall be recovered from customers or absorbed by MidAmerican during the second six-month period of each year. All award and penalty amounts for each respective six-month period of the two-year IGSP extension are to be calculated consistent with the existing six-month period limitations of one-half of 3 percent of the reference price.

The achievement of an award or the imposition of a penalty during the first six-month period of each year does not preclude the imposition of a penalty or achievement of an award during the second six-month period of each year of the IGSP extension and offsetting of penalties or awards between six-month periods of each year shall not be permitted;

(4) During the term of the IGSP extension, the tolerance band shall remain 2.5 percent tolerance above the reference price and 0.5 percent tolerance below the reference;

(5) The gas supply premiums that MidAmerican pays to suppliers above index prices in order to ensure purchased gas adjustment customers receive reliable gas supply shall be based upon actual supply premium payments made by MidAmerican and the actual supply premium payments shall be included in the supply charges component of the reference price during the two-year IGSP extension period;

(6) For purposes of calculating the reference price, MidAmerican shall utilize the "Gas Daily" publication for the daily reference price and eliminate the use of the "Btu Daily" publication; and

(7) For purposes of calculating the reference price, MidAmerican shall utilize the actual index prices referred to in its gas supply agreements for the monthly reference price.

The IGSP was originally approved by a "Final Decision and Order" issued on May 19, 1995, and "Order Granting Rehearing In Part And Denying Rehearing In Part" issued June 30, 1995. The plan, as originally approved, consisted of four primary components in which actual gas supply costs were measured against market-based benchmarks. The components are (1) natural gas commodity costs, (2) pipeline reservation costs, (3) storage injection costs, and (4) transportation costs.

On May 28, 1999, the IGSP was extended for a two-year period based upon a settlement between MidAmerican and Consumer Advocate. The settlement

retained the mechanics of the plan, but changed the calculations of savings. An amendment to the settlement was approved by the Board on February 17, 2000. In the amendment, MidAmerican's discounted contract rates were required to be lower than the rates in contracts entered into before November 1, 1998, and required MidAmerican to continuously negotiate lower rates in order to earn an award.

The Board has had concerns about continuation of the IGSP because of the possibility of awards being received by MidAmerican based upon artificial supply premiums. This concern has been rectified by the modifications agreed to in paragraph (5) above. The supply premiums to be used during the extension will be actual premiums.

The Board has had concerns about MidAmerican receiving an award from discounted capacity contracts that had already resulted in awards. This concern was alleviated in the previous extension and although the terms have been altered slightly in this request, they still provide adequate protection.

Finally, the Board had concerns about continuation of the IGSP when MidAmerican Holdings Company, the parent company of MidAmerican, acquired Northern Natural Gas Company (Northern), one of the primary interstate pipelines that supplies MidAmerican with natural gas. Awards under the IGSP are calculated based upon discounts with Northern and the Board is concerned whether the contracts between Northern and MidAmerican will still be negotiated at arm's length.

Based upon assurances from MidAmerican and Consumer Advocate's continued support of the extension, the Board finds that the IGSP should be extended, but only for one year at this time. The Board finds that closer scrutiny is

required of the IGSP because of the affiliation of MidAmerican with Northern.

Limiting the extension to one year will allow the Board the opportunity to monitor that relationship more closely.

The Board recognizes that the IGSP has resulted in significant sharing between MidAmerican and ratepayers under the first six years of the plan, but the affiliation between MidAmerican and Northern materially changes the parameters of the original plan. Review of the relationship during the succeeding year will allow the Board to ensure that the plan functions to the benefit of ratepayers as well as MidAmerican and its parent company.

IT IS THEREFORE ORDERED:

1. MidAmerican Energy Company's request for an extension of its Incentive Gas Supply Procurement Plan for a two-year period until October 31, 2004, is denied.

2. MidAmerican Energy Company is granted an extension of the Incentive Gas Supply Procurement Plan from October 31, 2002, until October 31, 2003.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 28th day of October, 2002.